

Indus Holding

16 August 2019

Firing only on three-and-a-half cylinders

Indus released weak Q2 data with €439m sales down 1% y/y organically compared to a 7% increase in Q1 and the €33m EBIT down a massive 19% y/y. Weakness resulted in particular from Automotive and Metals Technology while the Q2 disappointment in Engineering should be driven mainly by PoC fluctuations and thus looks transitory. Indus has cut its 2019 EBIT guidance to €152m-€158m, down 3%, however down 13% when stripping out a €17m one-off gain. We reduce our 2019 EBIT forecast by 1% to €155m (down 12% to €138m excl. the one-off), expecting that a material part of the weakness will spill over into 2020/21 with our new EBIT forecast (cut by 9%/4%) sitting 8%/7% below consensus driving our target price to €38 (from €48), also on lower target multiples. We think it is too early to buy given downside to consensus and uncertainty from Automotive exposure.

Firing only on three-and-a-half cylinders

Segmental performance in Q2 was heterogeneous with Automotive the major disappointment. However, we also detect signs of cyclical weakness in Metals Technology and Engineering. Construction and Medical/Life Science are the bright spots. This is reflected in our updated earnings forecasts where we cut our EBIT estimates before one offs by 12% for 2019, by 9% for 2020 and by 3% for 2021, in particular becoming more negative on Automotive but also more cautious on Metals Technology and Engineering.

Table 1 - Q2 reported

€m except for EPS	Q2 2019	CB Q2E	Δ	Q2 2018	y/y	yy. Org.
Sales	439	460	-5%	437	1%	-1%
Construction / Infra.	104	103	1%	95	10%	5%
Engineering	98	109	-10%	93	5%	3%
Automotive	91	93	-3%	98	-8%	-8%
Metals Technology	105	113	-7%	111	-5%	-5%
Medical / Life Science	41	41	-1%	39	5%	4%
EBIT	32.9	39.1	-16%	40.8	-19%	
Construction / Infra.	17.8	17.8	0%	15.2	17%	
Engineering	10.0	12.6	-21%	10.1	-2%	
Automotive	-5.3	-1.9	183%	1.9	-385%	
Metals Technology	7.7	8.4	-8%	11.2	-31%	
Medical / Life Science	5.3	4.5	16%	4.6	14%	

Source: Commerzbank, company data

Our target price moves to €38 from €48

We cut our sum-of-the-parts based target price by c. 20% based on a 2020 EV/EBIT sum-of-the-parts valuation. Here, c.10 percentage points are contributed by the cut to our EBIT forecast while 5 percentage points result from a lower target multiple which we move down from c.10.5x to c.10x, reflecting a deterioration in the growth profile in Construction and increasing risk in Automotive. Another 5 percentage points result from leverage.

Key Financials

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenue	1,641	1,711	1,756	1,760	1,761	1,771
EBITDA	215	234	224	235	246	249
EBIT	153	151	138	149	160	163
EBT	129	131	119	130	142	146
EV/EBITDA (x)	5.3	5.0	5.6	5.0	4.6	4.3
EV/EBIT (x)	7.4	7.8	9.0	7.9	7.0	6.6
Free Cash Flow	14	(24)	55	107	96	101
Net debt	304	356	419	351	295	237

Source Commerzbank Research, Bloomberg, Company Information

research.commerzbank.com | Bloomberg: CBKR | Important disclosure information

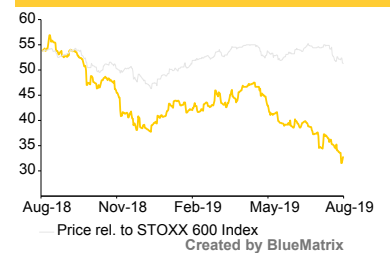
Hold
TP €38.00 (from €48.00)
CP €32.05
 (Closing 15 August 2019)

Key information

Expected performance	18.6%
1M / 3M performance:	(14.2)% / (26.5)%
Market Cap (m)	€784
Bloomberg:	INH GY
EV (CURm)	1,332
Shares outstanding (m)	24
Equity Free Float	74.8%
Dly trading vol (last 3-mth) (CURm)	0.8
Consensus Target Price	€NA
Book value per share	NA
Consensus recommendation	4.3
(5=Buy)	

Source: Commerzbank Research, Bloomberg

Relative and absolute performance (12M)



Source: Bloomberg

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Q2 results - Running the numbers

Q2 burdened by three out of five segments

Indus pre-released Q2 2019 sales of €439m on 8 August, up 1% y/y reported but down 1% excluding effects from acquisitions. Q2 sales were 5% short of our original expectations. The EBIT of €32.9m was down a massive 19% y/y. The final release as of 13. August showed that the weakness in sales growth and earnings resulted from Automotive, Metals Technology and Engineering.

Table 2 - Q2 final and pre-release

€m except for EPS	Prel. Q2		CB Q2E	Δ	Cons Q2		Q2 2018	y/y	yy. Org.	Q1 2019	q/q
	2019	Q2 2019			2019	Δ					
Sales	439	439	460	-5%	n.a.	n.a.	437	1%	-1%	438	0%
Construction / Infra.		104	103	1%			95	10%	5%	87	21%
Engineering		98	109	-10%			93	5%	3%	109	-10%
Automotive		91	93	-3%			98	-8%	-8%	93	-2%
Metals Technology		105	113	-7%			111	-5%	-5%	108	-3%
Medical / Life Science		41	41	-1%			39	5%	4%	41	-1%
EBIT	32.9	32.9	39.1	-16%	n.a.	n.a.	40.8	-19%		33.6	-2%
Construction / Infra.		17.8	17.8	0%			15.2	17%		10.0	79%
Engineering		10.0	12.6	-21%			10.1	-2%		12.8	-22%
Automotive	-5.4E	-5.3	-1.9	183%			1.9	-385%		0.2	n.m.
Metals Technology		7.7	8.4	-8%			11.2	-31%		8.6	-11%
Medical / Life Science		5.3	4.5	16%			4.6	14%		3.8	37%
Margin	7.5%	7.5%	8.5%				9.3%			7.7%	
Construction / Infra.		17.1%	17.2%				16.0%			11.5%	
Engineering		10.1%	11.5%				10.9%			11.7%	
Automotive		-5.8%	-2.0%				1.9%			0.2%	
Metals Technology		7.3%	7.4%				10.1%			8.0%	
Medical / Life Science		13.0%	11.0%				11.9%			9.4%	
Net income	17.5	17.5	22.8	-23%			23.3	-25%		19.8	-12%
EPS	0.72	0.72	0.93	-23%			0.95	-24%		0.81	-11%

Source: Commerzbank, company data

Further deterioration in Automotive in Q2

The €91m Automotive sales were roughly down as expected (down 8% vs. our down 5% forecast), the €5m EBIT loss was €3m worse than expected. The deterioration in series suppliers which make up roughly half of sales was exacerbated more than we had expected, burdening operations and driving restructuring provisions.

Metals Technologies weaker than feared in Q2

In Metals Technologies, the €105m sales were down 5% y/y, 7% below our estimate due to declines in hard metal tools and mining sales. We interpret the decline to be a combination of normalisation vs. an unusually strong 2018 and a cyclical slowdown. The 7.3% segment margin was in line with our estimates.

PoC volatility burdening Engineering in Q2

We conclude from our second glance at Engineering that the Q2 disappointment should be transitory to a major part. The €98m sales were 10% short of our forecast, the €10m EBIT was 21% short. While we think that some of this weakness is attributable to a cyclical drop in demand, the major part should result from quarterly fluctuations from PoC. In particular, we think that our original assumption that Automotive OEMs returned to order following a phase of reluctance in 2018 remains valid. Then, organic growth dropped to 0%, we estimate, and the EBIT margin was down 80bps on lower yielding projects which have been taken in to fill the gap. However, also spot signs of some cyclical slowdown in Q2.

Construction in line

Sales in Construction/Infrastructure were €104m, up 10% y/y reported and up an estimated 5% organically, in line with our estimates as well as the €17.8m EBIT. The segment thus remains on track with our growth expectations though, as a slight negative, we note the organic sales momentum declines (we estimate 11% for Q1). In addition, Indus indicates that air conditioning equipment became a major driver in Q2 while we would prefer a broader based profile of sales drivers.

Medical/Life Science better in Q2

We regard it as a positive that the segment continued its growth path in Q2 at €41m sales, up 5% yy (we estimate up 4% organically). Q1 saw 5% sales growth too while 2018 sales were down 1%, burdened by increasing regulation in surgical instruments and operating problems in tissues. The 13% EBIT margin was ahead of our 11% forecast.

Changing estimates - negatives outweigh

Indus' warning is worse than it looks at first glance

Indus has lowered its 2019 EBIT guidance to €152m - €158m from the prior €156m - €162m range together with the pre-release of Q2 data. Though at first glance, this implies only a 3% cut at the mid point, the €16.5m one-off gains from the disposals of a 49% JV stake in the Automotive segment, which was announced in July, needs to be stripped out. This results in a cut to an underlying €136m to €142m EBIT, i.e. down 13% at the mid point. We cut our EBIT estimates excl. one offs by 12% to 4% for 2019 - 2021, expecting that weakness in Automotive will spill over into 2020 while restructuring should bear fruit in 2021. Our estimates are based on Commerzbank Economic Research's forecasts for a continued slowdown in 2019 and a anemic recovery in 2020, however no pronounced recession.

Table 3 - Changed estimates 2019 - 2021

€m except for EPS	2019			2020			2021		
	old	new	Δ	old	new	Δ	old	new	Δ
Sales	1,740	1,756	0.9%	1,783	1,760	-1.3%	1,785	1,761	-1.3%
Construction / Infra.	372	390	4.8%	380	399	4.8%	384	403	4.8%
Engineering	394	428	8.5%	396	425	7.2%	398	425	6.7%
Automotive	388	359	-7.4%	415	350	-15.6%	409	344	-15.9%
Metals Technology	429	418	-2.4%	432	422	-2.4%	434	424	-2.4%
Medical / Life Science	157	161	2.9%	158	165	3.9%	159	166	4.1%
EBIT excl. One offs	156.6	138.0	-11.9%	164.5	148.9	-9.5%	165.2	159.5	-3.5%
EBIT margin excl. imp	9.0%	7.9%		9.2%	8.5%		9.3%	9.1%	
EBIT	156.6	154.5	-1.4%	164.5	148.9	-9.5%	165.2	159.5	-3.5%
Construction / Infra.	51.6	55.3	7.1%	52.6	56.4	7.1%	52.3	56.1	7.2%
Engineering	53.0	53.1	0.2%	53.4	51.1	-4.2%	53.7	51.1	-4.9%
Automotive	9.1	2.6	-71.2%	16.0	-2.1	-113.1%	16.3	8.3	-49.3%
Metals Technology	34.9	33.5	-3.9%	34.2	32.9	-3.9%	34.5	33.2	-3.9%
Medical / Life Science	16.9	18.8	11.3%	17.3	19.5	12.8%	17.5	19.7	13.1%
Margin	9.0%	8.8%		9.2%	8.5%		9.3%	9.1%	
Construction / Infra.	13.9%	14.2%		13.8%	14.1%		13.6%	13.9%	
Engineering	13.4%	12.4%		13.5%	12.0%		13.5%	12.0%	
Automotive	2.3%	0.7%		3.9%	-0.6%		4.0%	2.4%	
Metals Technology	8.1%	8.0%		7.9%	7.8%		7.9%	7.8%	
Medical / Life Science	10.8%	11.7%		10.9%	11.8%		11.0%	11.9%	
Net income after min.	83.3	83.7	0.5%	92.7	84.7	-8.6%	94.1	92.1	-2.0%
EPS	3.41	3.42	0.5%	3.79	3.46	-8.6%	3.85	3.77	-2.0%
DPS	1.70	1.60	-5.9%	1.75	1.60	-8.6%	1.80	1.75	-2.8%
Payout ratio	49.9%	46.7%		46.2%	46.2%		46.8%	46.4%	

Source: Commerzbank

Automotive remains the weak spot

Compared to our prior estimates, in particular the further deterioration in Automotive is the major disappointment. We estimate that as of 2018, 47% of segment sales were generated in niche suppliers which should continue to operate at decent margins while the environment for the manufacturers of series components (53% of 2018 sales estimated) became even tougher on dropping volumes and mounting price pressure. As a result, we cut our 2019 - 2021 sales forecast by 7% to 16% and our EBIT estimates materially (please see the table above). In this respect, we regard structural risk resulting from the exposure to combustion engines as an additional risk factor.

Metals Technologies and Engineering with some cyclical burdens

We reduce our estimates Metals Technologies by 4% since we expect that the continued slowdown in global manufacturing should continue to weigh on demand. For Engineering, we raise our sales estimates by between 8% and 7% despite the weak Q2 sales reading since we think that is was triggered to a major part by PoC fluctuations. It is worth noting that we forecast a c.4 percentage points sales growth impetus for 2019 and a cumulated 6 percentage points for 2020 from the first time consolidation of a new acquisition in this segment. We raise our organic sales estimate by 5% for 2019 but, since we spot some signs of cyclical slowdown, only by 1% for 2020.

Construction/Infrastructure and Medical are the only bright spots

We raise our estimates for the segments Construction/Infrastructure and Medical/Life Science. In Construction/Infrastructure, we conclude that structural growth drivers in the German market should persist for the foreseeable future. In Medical/Life Science, the counter-measures to compensate the weak spots had a stronger than expected impact which should bring the margin back to the mid point of the the 11% to 13% target margin range.

Balance Sheet

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Cash	136	110	117	125	131	139
Trade receivables	198	203	208	208	211	213
Inventories	339	409	400	383	383	385
Other WC assets	27	31	31	31	31	31
Intangible assets	86	91	91	91	91	91
PP&E	397	418	537	533	530	526
Goodwill	429	419	419	419	419	419
Financial assets	19	17	17	18	18	19
Current	0	0	0	0	0	0
Non-current	19	17	17	18	18	19
At equity cons. assets	11	11	11	11	11	11
Other assets	11	13	13	13	13	14
Total assets	1,653	1,720	1,843	1,831	1,838	1,847
Account payables	66	66	67	68	68	68
Other WC liabilities	280	291	295	295	295	296
Financial debt	440	466	536	476	426	376
Pension provisions	44	44	45	45	45	45
Other Provisions	75	75	72	74	78	84
Other liabilities	0	0	0	0	0	0
Total liabilities	979	1,010	1,086	1,029	982	940
Share Capital	64	64	64	64	64	64
Treasury shares	0	0	0	0	0	0
Retained earnings	607	644	691	736	789	841
Proposed dividends	0	0	0	0	0	0
Other	0	0	0	0	0	0
Equity & liabilities	1,653	1,720	1,843	1,831	1,838	1,847
Minority interest	3	3	3	3	3	3
Total equity	671	707	754	800	853	905
as % of total assets	41	41	41	44	46	49

Source Commerzbank Research, Bloomberg, Company Information

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenue	1,641	1,711	1,756	1,760	1,761	1,771
Revenue growth (%)	13.6	4.3	2.7	0.2	0.1	0.6
Inventory changes	5	35	(4)	1	1	1
Capitalized own work	5	8	8	8	8	8
Total output	1,651	1,754	1,760	1,769	1,770	1,780
Material expenses	(746)	(812)	(807)	(814)	(809)	(813)
Gross profit	895	899	949	946	952	958
Gross margin (%)	54.5	52.5	54.1	53.8	54.1	54.1
Personnel expenses	(480)	(507)	(523)	(526)	(526)	(529)
as % of sales	(29.2)	(29.6)	(29.8)	(29.9)	(29.9)	(29.9)
Other income/expenses	(210)	(217)	(190)	(195)	(190)	(190)
as % of sales	(28.2)	(26.7)	(23.5)	(23.9)	(23.4)	(23.3)
Other income	18	21	21	21	21	21
Other expenses	(228)	(238)	(211)	(216)	(211)	(211)
D&A	(62)	(84)	(86)	(86)	(86)	(87)
EBIT rep.	153	135	154	149	160	163
margin (%)	9.3	7.9	8.8	8.5	9.1	9.2
Adjustments	0	(16)	17	0	0	0
EBIT adj.	153	151	138	149	160	163
margin (%)	9.3	8.8	7.9	8.5	9.1	9.2
D&A	(62)	(84)	(86)	(86)	(86)	(87)
EBITDA rep.	215	218	240	235	246	249
margin (%)	13.1	12.8	13.7	13.4	14.0	14.1
Financial result	(24)	(20)	(19)	(18)	(18)	(17)
Interest expenses	0	0	1	1	1	1
Interest income	(24)	(20)	(20)	(19)	(18)	(18)
EBT rep.	129	115	135	130	142	146
EBT adj.	129	131	119	130	142	146
EBT margin (%)	7.9	7.7	6.8	7.4	8.1	8.2
Tax	(46)	(44)	(51)	(45)	(49)	(51)
Tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(1)	(0)	(0)	(0)	(0)	(0)
Discontinued ops.	0	0	0	0	0	0
EAT rep.	82	71	84	85	92	95
EAT adj.	82	87	67	85	92	95
EPS rep.	3.37	2.90	3.42	3.46	3.77	3.87
# of shares	24	24	24	24	24	24

Source Commerzbank Research, Bloomberg, Company Information

KPI						
Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenues	1,641	1,711	1,756	1,760	1,761	1,771
growth y/y (%)	13.6	4.3	2.7	0.2	0.1	0.6
EBITDA	215	234	224	235	246	249
EBITDA margin (%)	13.1	13.7	12.8	13.4	14.0	14.1
EBITDA growth (%)	7.2	8.9	(4.5)	4.9	4.5	1.4
EBIT	153	151	138	149	160	163
EBIT margin (%)	9.3	8.8	7.9	8.5	9.1	9.2
EBIT growth (%)	5.5	(1.4)	(8.5)	7.9	7.1	1.9
EBITA	164	151	165	159	170	172
EBITA margin (%)	10.0	8.8	9.4	9.0	9.6	9.7
EBITA growth (%)	0.0	0.0	0.0	0.0	0.0	0.0
EBT	129	131	119	130	142	146
EBT margin (%)	7.9	7.7	6.8	7.4	8.1	8.2
Free cash flow	14	(24)	55	107	96	101
Free cash flow as % of sales	0.9	(1.4)	3.1	6.1	5.5	5.7
FCF to Equity	2	(3)	7	13	11	11
FCFPS	0.57	(0.97)	2.23	4.38	3.92	4.14
EPS rep.	3.37	2.90	3.42	3.46	3.77	3.87
DPS	1.50	1.50	1.60	1.60	1.75	1.85
Dividends	37	37	39	39	43	45
Share buy-backs	0	0	0	0	0	0
Pay-out ratio	45	42	58	46	46	48
Net financial debt	304	356	419	351	295	237
Net economic debt	453	544	598	531	475	418
Delta EV/EqV	347.6	399.9	463.5	396.0	339.6	282.0
Net financial debt/EBITDA (x)	1.4	1.5	1.9	1.5	1.2	1.0
No. of shares (class A) basic	24	24	24	24	24	24
No. of shares (class A) diluted	24	24	24	24	24	24
BVPS	27.44	28.92	30.84	32.71	34.88	37.00
Operating cash flow per share	5.07	3.05	7.32	7.77	7.31	7.50
CapEx/depreciation	1.3	1.1	1.5	1.0	1.0	1.0
CapEx as % of sales	4.8	5.3	7.1	4.7	4.7	4.7
PP&E as % of sales	24.2	24.5	30.6	30.3	30.1	29.7
Net Working Capital	471	546	540	524	527	530
NWC as % of sales	28.7	31.9	30.8	29.8	29.9	29.9
ROCE	13.2	12.4	10.3	11.3	12.1	12.3
ROIC	4.7	3.2	3.8	4.0	4.3	4.3
ROA	5.0	5.1	3.7	4.6	5.0	5.1

Source Commerzbank Research, Bloomberg, Company Information

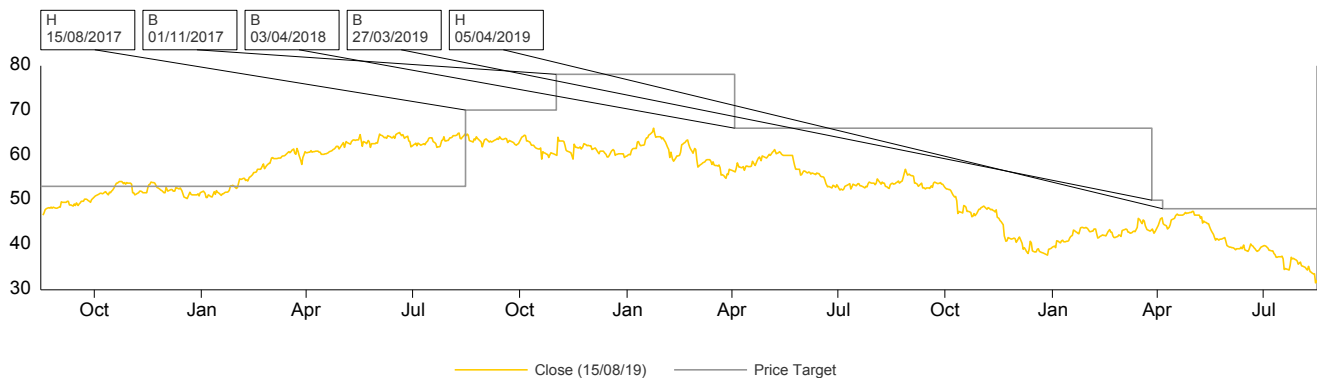
Cash Flow

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
EBIT as rep.	153	135	154	149	160	163
Tax	46	44	51	45	49	51
D&A etc.	62	84	86	86	86	87
D&A	62	84	86	86	86	87
(P)/L asset disposal	(1)	0	0	0	0	0
Δ inventories	(41)	(75)	3	18	(0)	0
Δ receivables	4	(1)	0	0	0	0
Δ payables	18	1	6	0	0	1
Other operating cash flow	(116)	(113)	(122)	(109)	(116)	(118)
Operating Cash Flow	124	75	179	190	179	183
Gross CAPEX	(79)	(91)	(124)	(83)	(83)	(83)
Invest. cash flow	(110)	(98)	(124)	(83)	(83)	(82)
Free Cash Flow	14	(24)	55	107	96	101
Dividend payment	(33)	(37)	(37)	(39)	(39)	(43)
Free Cash Flow (after dividend)	(19)	(60)	18	68	57	58
Increase / (decrease) in debt	31	58	(10)	(60)	(50)	(50)
Other financing cash flows	(1)	(24)	(0)	(0)	(0)	(0)
Financing Cash Flow	(4)	(3)	(47)	(100)	(90)	(93)
FX effects	(1)	0	0	0	0	0
Net change in cash	9	(26)	8	8	6	8
Beginning cash	127	136	110	117	125	131
Ending cash	136	110	117	125	131	139

Source Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 16/8/2019 18:11 CEST and disseminated 16/8/2019 18:11 CEST.

Indus Holding AG (INH GY)



Rating and PT Changes:

Company Name	Covering Analyst	Rating	Previous Rating	Price Target	Previous PT	Closing Price	Change Date
Indus Holding AG	Norbert Kretlow	Hold	Hold	€38.00	€48.00	€32.05	16/8/2019
Indus Holding AG	Norbert Kretlow	Hold	Buy	€48.00	€50.00	€46.05	5/4/2019
Indus Holding AG	Norbert Kretlow	Buy	-	€50.00	-	€43.30	27/3/2019

Distribution of ratings:

Number of recommendations from Commerzbank Research, at the end of Q2 2019	thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
79 (40.10%) Buy	11 (13.92%)
92 (46.70%) Hold	9 (9.78%)
26 (13.20%) Reduce	1 (3.85%)

Source: Commerzbank Research

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